



April 13, 2004

Via Facsimile & Extranet

Rc: Independent Auditor's Notice Regarding Disputes of the Final Calculation for the Tobacco Litigation Master Settlement Agreement Subsection IX(c)(1) Account Payments Due April 15, 2004 – NOTICE ID: 0140

Dear Notice Party:

As you are aware, PricewaterhouseCoopers LLP **has** been retained pursuant to section XI(b) of the Tobacco Litigation Master Settlement Agreement ("MSA") to serve as the Independent Auditor as described in the MSA. Pursuant to such engagement, we have issued the IX(c)(1) 2004 Final Calculation for the calendar year 2003 (Notice ID: 0139). Prior to issuing the IX(c)(1) 2004 Final Calculation, we became aware from several parties of possible disputes related to potential claims of entitlement to NPM Adjustments based on volumes for 2003. Our engagement letter, dated May 25, 2000, provides that in the event of a dispute among one or more parties to the MSA, the Independent Auditor will determine and administer the initial dispute resolution process. Pursuant to our engagement authority and in order to identify and clarify those issues with respect to which disputes might exist and as a process to facilitate possible resolution of disputed issues, we requested and collected information from various parties, including meeting with numerous representatives in Houston, Texas on March 22, 2004.

We have been provided with copies of agreements which were entered into in 2003 by and among the Settling States and certain Participating Manufacturers (the "2003 Agreements"). The 2003 Agreements relate to claims or potential claims of entitlement to NPM Adjustments and related disputes as between the parties to the respective 2003 Agreements. As you are aware, the 2003 Agreements do not amend the MSA. Further, the Independent Auditor is not a party to the 2003 Agreements and our engagement does not extend to the provisions of the 2003 Agreements, nor do the 2003 Agreements amend our role as Independent Auditor.

We are aware that certain Participating Manufacturers ("PM") believe that they are entitled to an NPM Adjustment for the calendar year 2003. Likewise, we are aware that the Settling States disagree that any NPM Adjustment is applicable for 2003. The MSA contains dispute resolution provisions should the parties be unable to resolve any such disagreements among themselves. We do not believe that the Independent Auditor has been engaged or is authorized to resolve such disputes including, without limitation, determining the amounts in dispute. To the extent of the information provided to us as Independent Auditor, we have endeavored to provide information to all parties with the IX(c)(1) 2004 Final Calculation which would enable a PM to provide a notice of dispute pursuant to MSA subsection XI(d)(6) with respect to a claim of entitlement to an NPM Adjustment including a statement of the disputed and undisputed amounts that such PM has determined to assert for 2003. In fact, as you are all aware, since providing the IX(c)(1) 2004 Final Calculation, we have received several notices from PMs which formally assert a dispute concerning such issue as well as with respect to various other issues.

We are sensitive to the concerns of all parties and we believe it is important to all parties that the Independent Auditor continues its role as contemplated by the MSA. As previously noted, our engagement letter provides that in the event there is a dispute among one or more parties to the MSA which is not resolved informally, then the Independent Auditor will determine and



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administer the initial dispute resolution process. The March 22, 2004 meeting and the request for submission of position statements were part of that process. If any party disagrees with the dispute resolution process as determined by the Independent Auditor or the parties are unable to otherwise resolve the dispute, the MSA provides that the dispute is to be submitted to binding arbitration in accordance with subsection XI(c) of the MSA.

Notwithstanding the above, the parties may continue to endeavor to resolve the dispute among themselves or to establish an alternative resolution process. As the Independent Auditor, we are prepared to provide our services in any capacity possible to assist the parties to facilitate the resolution of this dispute, as well any other disputes and issues that may arise in the future.

All capitalized terms used in this notice, unless otherwise defined herein, shall be defined as in the MSA. The information contained in this notice is considered confidential and should not be used for any purpose other than as contemplated in the MSA.

Should you wish to contact the Independent Auditor, please send all correspondence to the following address.

Independent Auditor to the Master Settlement Agreement
PricewaterhouseCoopers LLP
Attn.: Ryan B. Harrell
1201 Louisiana Street, Suite 2900
Houston, Texas 77002
Fax Number: (713) 356-6000

This notice was sent via facsimile and Extranet on April 13, 2004.

Authorized Users of the Tobacco Litigation Master Settlement Agreement Extranet may access this notice on-line at <http://www.tlmsa.net>.

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A handwritten signature in black ink, which appears to read 'Theodore F. Martens', is written over a faint, larger signature that reads 'PricewaterhouseCoopers LLP'.

By: Theodore F. Martens
Independent Auditor to the Master Settlement Agreement